David Murray

BRINGING IT FORWARD

Learn rules to push extra super limits

DIY super

Monica Rule

The new financial year has delivered increases in the maximum personal contribution, or non-concessional contribution, you can make into your self-managed superannuation fund.

The annual limit for the after-tax contribution was $150,000 for everyone.

If you were under 65, you were allowed to use the bring-forward rule and contribute three years' worth in one year or over three consecutive years — meaning you could contribute $450,000 in one year or over three years.

The new limits from last month are $180,000 a year or $540,000 using the two-year bring-forward rule.

A lot of SMSF members are confused about how to use the two-year bring-forward rule.

I am often asked: When does the clock start ticking? Which financial years are counted? And, can you make three years' worth of contributions when you are under 65?

The two-year bring-forward rule will be triggered as soon as you make personal contributions totalling more than $180,000 in one financial year. This means as soon as you end up contributing more than the annual amount, you trigger the bring-forward rule — even if you only exceeded the annual amount by $1.

Second, under the super law, you are entitled to use the bring-forward rule as long as you were under 65 in the first year of contribution. You just need to make sure that at any time in the first financial year you were younger than 65. If your birthday falls on July 2 and you turned 65 on that date, you qualify because you were under 65 on July 1. It doesn't matter that you are no longer under 65 the rest of the first financial year or the following two financial years.

Third point. If you are between 65 and 74, you need to be working at least 40 hours in a period of not more than 30 consecutive days in a financial year to be entitled to make a contribution to your SMSF. This means that if you did trigger the two-year bring-forward rule in the first financial year when you were under the age of 65 and you have made some non-concessional contributions towards the $540,000 limit, and you are planning to contribute the remainder of your $540,000 after you turned 65, you will need to meet the part-time work test to be able to contribute. The work test only has to be met once in a financial year. You can make contributions once you have met the work test. You do not need to be working every month to make further contributions.

The fourth point is once you have triggered the bring-forward rule, you cannot make further non-concessional contributions into your SMSF until after the third financial year. If you triggered the bring-forward rule in 2014-15, you cannot make any more personal contributions until July 1, 2017. This is because you have used up your annual limits for three financial years, 2014-15, 2015-16, and 2016-17.

Finally, for those of you who triggered the two-year bring-forward rule in 2013-14, you are stuck with the $450,000 limit and cannot use the increased limit of $540,000 until your bring-forward period has expired.

So please, don't think you can claim a further $90,000 in the increase of the three-year cap by making further contributions. Your three-year limit is still $450,000 because you had triggered it prior to the change in the limit taking effect. Making a contribution in excess of your limit will be considered an excess contribution and you will be penalised.

A lot of people have missed a good opportunity to make larger contributions into their SMSF simply because they have not stayed informed about changes to government policy.

It pays to understand the law and to have a good understanding of how the limits apply to your personal circumstances.

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or legal adviser. The banks will also have to give trustees factual information about what an LRBA involves, including their advantages and risks, how it is established and what happens in the case of default.

The guidelines for SMSF advisers are far more detailed, requiring them to provide technical information plus advice on whether it is an appropriate strategy considering issues including fund balance, asset concentration, insurance needs and what will be needed to repay the debt.

Ms Ravlich said young high-income earners keen on property investment might be able to pay off an LRBA quickly with concessional contributions up to the $30,000 annual limit and with the property's rental income.

"I would be very, very cautious unless you are very confident as far as your income is concerned and you have the capacity to pay it off quickly," she said.

She was wary of SMSFs buying residential property and was also concerned that commercial property could be struggling at the moment with the downturn in the mining industry. "We're very cautious about what properties they buy," she said.

was on the wall

ready to be bought and lines the mug punter up with a friendly banker.

These property-peddling services are being aggressively marketed across Australia. This reporter even received a call from one at home on Wednesday night. A very pleasant-sounding lady offered to help save tax by investing in property.

Fortunately for the spruiker, it had been a rough day at the office and I did not write down enough information to really finger them in this column.

Yet I have no doubt this spruiker and anyone worth their salt would have had no problems explaining away the sort of warnings contained in a document vetted by a bank's legal department.

It would go something like this: "Mate, they're just covering their butts by giving you that guff. Your investment is as safe as houses."

In other words, the whole system still relies on decent advisers giving proper advice and trustees being willing and able to make an informed decision.

Here's hoping against hope the SMSF Professionals Association guidelines help and that Mr Murray devises a system to prevent abuse while allowing legitimate, well-advised super borrowing arrangements.

If not, we will look forward to a Royal Commission later this decade into how banks and spruikers were allowed to get their mitts onto billions of dollars of super savings.

House price warning for investors

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gearing, or borrowing. When the net cost of the borrowed funds is not matched by the growth of the asset, you are simply going backwards. It does not matter whether the property is geared within or on the outside of a self-managed fund, the maths is the same.

If the growth rate is less than inflation, the spending power of your money is diminished.

Professional fund managers are steering away from housing. Critics of professional fund managers may not be fans of their approach but it is worth taking time to understand the science behind their strategies. And while some will have pooh-poohed the professional fund manager's approach to managing superannuation funds, at least understand some of the science.

Like diversification of assets and classes.

For example, it means having a spread between the three primary asset classes, which are: deposits such as cash, deposits and bonds; property; and shares, also known as equities.

For a smaller investor, this does not mean having a token 50 Commonwealth Bank shares and a $10,000 term deposit alongside a $500,000 geared, off-the-plan unit.

Diversification within asset classes also reduces risk that your funds will be wiped out if any one of your assets do an HIH, OneTel or Westpoint and disappear down the plughole. The appropriate mix depends on the level of risk you wish to take.

House price query: Kerr Neilson

> Kerr Neilson's prediction that house prices are unlikely to beat inflation coincides with worrying research from Moody's, Credit Suisse and the Reserve Bank.

Professionals apply additional methods within modern portfolio theory, which was devised by Nobel Prize-winning economist Harry Markowitz.

Portfolio optimisation techniques are widely used and are based on sophisticated financial modelling systems.

That approach to designing a portfolio has been partly contradicted by another branch of portfolio design based on behavioural finance theories.

Studies into what makes markets and portfolios go up and down has generated more than one Nobel Prize and the best fund managers tend to use elements of all these theories.

Google these terms to discover what professional fund managers are doing. As you'll discover, getting it right isn't quite as simple as buying a few shares.

We have repeatedly stressed in Your Money that you need to be very careful when moving your super from professionally run, diversified, super funds regulated by the Australian Prudential Regulation Authority to a self-managed fund scenario.

If someone is suggesting you do this, they will be doing well out of it. Just be certain you will be, too.

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